

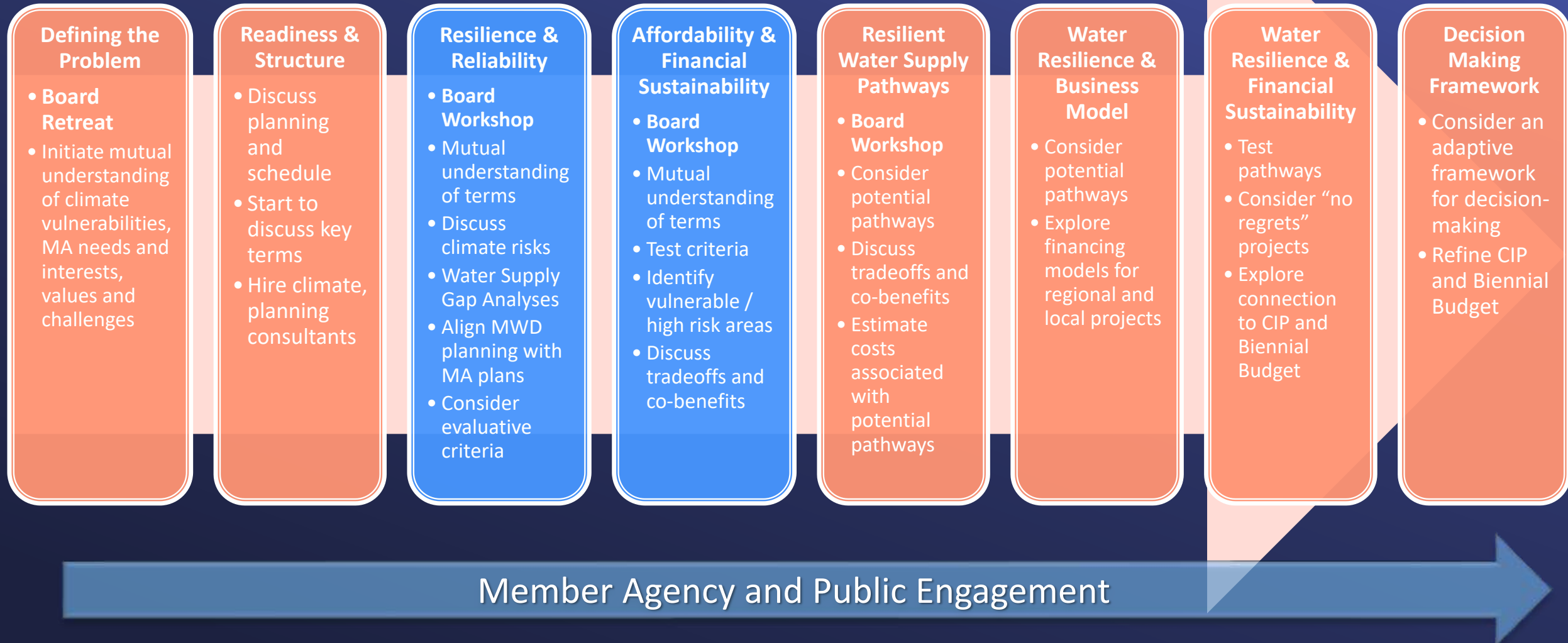


Board of Directors Workshop Long-Term Regional
Planning Processes and Business Modeling

Climate Adaptation Master Plan for Water: Terminology and Interests

Item 5a
May 23, 2023

Potential Climate Adaptation Master Planning Process



Today's Discussion: Terminology & Interests

Reliability

Resilience

Affordability

Financial Sustainability

- How does Metropolitan define these terms now?
- How are they used in practice?
- How do evolving climate conditions impact our understanding of these terms?

Reliability & Resilience

- (Supply) Reliability
Always meet water demands
- (System) Resilience
Withstand & recover from
disruptions

How Metropolitan defines...

Supply Reliability denotes the importance of developing a diversified portfolio of projects/programs to meet projected water demands

Working Definition

Reliability Source: Integrated Resources Plan

Early goal

- Avoid shortages for firm demand in all but the most severe drought (1 in 50 years)

Later goal (with buffer)

- Full capability to meet all retail-level water demands under all foreseeable hydrologic events (100% reliability)
- Through integrating imported and local water resources

Future goal (expanded “foreseeable”)

- Full capability to meet all retail-level water demands under all foreseeable hydrologic events (test through scenarios)

Reliability in Practice

Source: Integrated Resources Plan

Working Definition

How
Metropolitan
defines...



Water Use
Efficiency



Local Supply



Imported Supply



Water
Storage

Combination of actions by both retail and wholesale water providers

Working Definition

Reliability
(Supply)
&
Resilience
(System)



How Metropolitan defines...

Most efforts to address
resilience have focused on
system reliability and seismic
resilience

Working Definition

Resilience

The capacity to prepare for disruptions, to recover from shocks and stresses, and to adapt and grow from a disruptive experience.



Resilience in Practice

Working Definition

How
Metropolitan
defines...



Financial Sustainability & Affordability

- (Enterprise) Financial Sustainability
Revenues sufficient to cover expenses over the short- and long- term
- (Customer) Affordability
Relative cost burden and elastic ability to access (pay for) service

Financial Sustainability

Working Definition

How
Metropolitan
defines...

- Enterprise-wide assessment of Metropolitan's financial health
- Revenues sufficient to cover expenses over the short- and long-term
 - Maintain adequate monetary reserves to withstand unforeseen expenditures and revenue declines due to variations in economic and hydrologic conditions
 - Ensure business model remains viable into the future

Financial Sustainability in Practice

Working Definition

How
Metropolitan
defines...

- Remaining cost competitive
 - Efficient use of resources
 - Cost-containment strategies
- Maintain creditworthiness for access to capital markets / debt financing
 - Operational liquidity
 - Reserve sufficiency and sustainability
 - Debt Coverage Ratios
 - Net position / debt capacity

Financial Sustainability in Practice

- Long-term planning...
 - Invest to maintain our targeted water supplies
 - Fund replenishments and refurbishments of core system
 - Maintain highly skilled workforce
 - Forecast impact on projected average rates
- ...Incorporating climate change
 - Rating agencies are developing more robust models to assess the risk exposure of climate change on their portfolio of credits
 - Increased uncertainty and variability due to climate change requires Metropolitan to update its projected financial outlook

Working Definition

How
Metropolitan
defines...

Affordability

Working Definition

How
Metropolitan
defines...

- Economy of scale concept
 - Met was created to deliver regional projects (CRA/SWP) more affordably for Member Agencies
- Relative cost concept
 - Comparative Cost – to other source of water (\$/AF)
 - Cost Value – ROI as a metric may help assess cost value and scalability of a project or program (can include multiple benefits)
 - Lifecycle Cost – What is the value over the long-term? O&M in addition to upfront capital costs

Member Agency Perspective

Affordability Is Complex

It has different implications for
Metropolitan vs. Wholesale
Member Agencies and Retail
Member Agencies

Affordability in Practice

- Member Agencies have distinct profiles of financial capacity
 - Large and small
 - Growing and established
 - Different levels of financial capacity
 - Different levels of rate capacity
 - Varying levels of reliance on Metropolitan supplies
- Retail customer capacity to pay (income as a measure of capacity to pay)
 - Disposable income
 - Household vs. per capita income
 - Research on metrics and overlapping rate burden

Retail customer ability to access water service is based on their overlapping rate burden and capacity to pay

System Perspective

Affordability Is Local

As a wholesaler, Metropolitan doesn't control how its Member Agencies pass on Metropolitan's costs to its member agencies and/or their customers

